EUROPEAN BANKING AUTHORITY

PROPORTIONALITY FROM EU REGULATOR'S PERSPECTIVE

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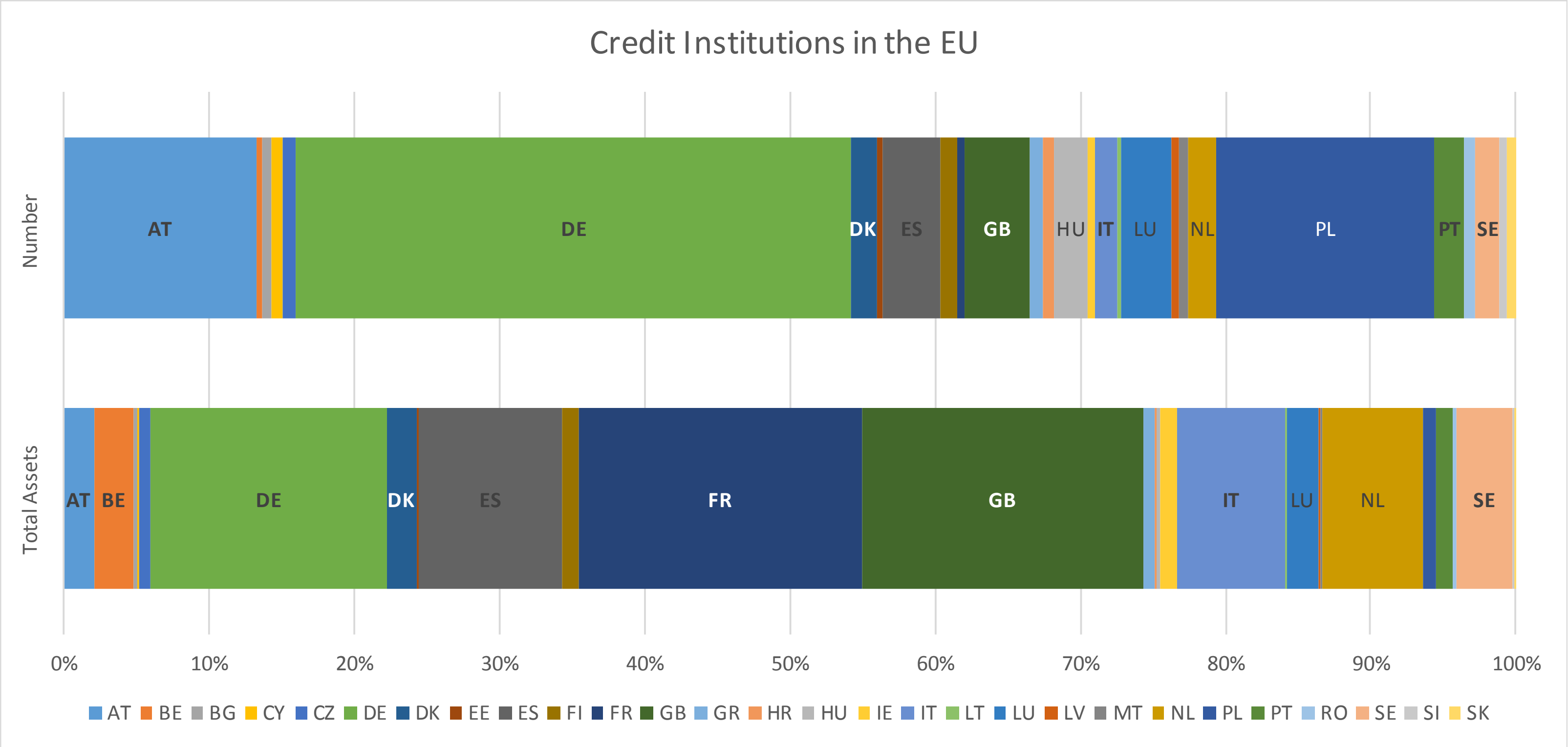
Content

The number and total assets of credit institutions is not evenly distributed across countries

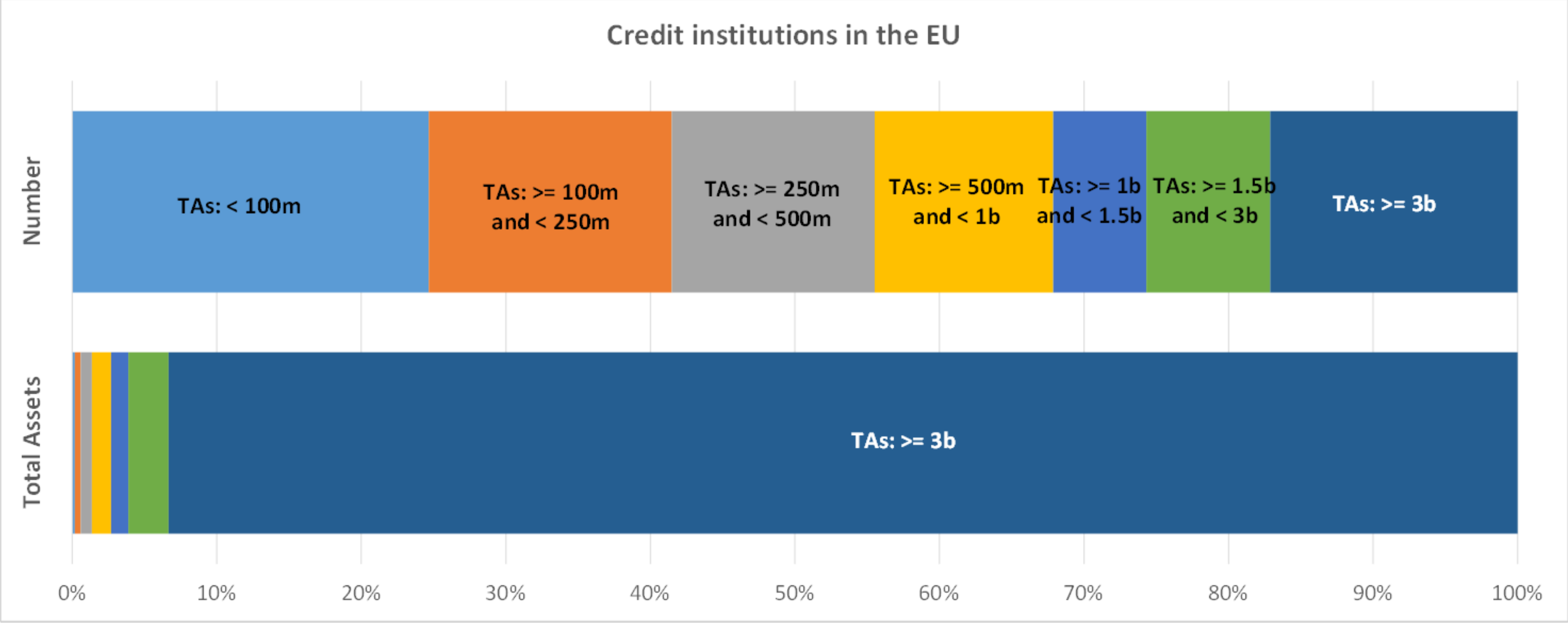
- In number 38% is concentrated in Germany, 15% in Poland and 13% in Austria
- Most of total assets are concentrated in France (19%), United Kingdom (19%), Germany (16%), Spain (10%), Italy (7%) and the Netherlands (7%), which together account for 79%



* Source: NCAs. Data at consolidated level. For Italy the number of banks assumes that 289 mutual banks ("banche di credito cooperativo") are already part of 3 new banking groups as it is supposed to be by the end of the year (under authorization process).

Most credit institutions are small, but they account for little assets in the overall banking sector

- Institutions with total assets below EUR 3 billion constitute 83% of the total number of institutions
- Small institutions represent only 7% of total assets. Even in countries with largest number of small institutions, such as Slovenia and Latvia, largest banks constitute more than 50% of total assets.



Business models classification (16 categories)

Diversified/ universal BMs

- Cross-border universal banks
- Local universal banks

Retail-oriented institutions

- Automotive, consumer credit banks
- Building societies
- Locally active savings and loan associations/ cooperative banks
- Private banks
- Custody banks
- CCPs

Corporate-oriented

- Merchant banks
- Leasing and factoring banks

Public sector oriented

- Public development banks

Other specialised

- Mortgage banks including pass-through financing mortgage banks)
- Other specialised banks

Investment firms according to Article 4(2) of the CRR

- Dealing on own account / underwriting
- Securities trading houses
- Other Investment firms

Small Credit institutions represent a heterogeneous group

Business model type		Business model name	Total	Of which: small (Tier 1 < EUR 1.5 billion)	
				Nr	*%*
Universal banks	**1**	**Cross-border universal banks**	107	59	*55%*
	2	**Local universal banks**	335	278	*83%*
Retail-oriented institutions	**3**	**Automotive, consumer credit banks**	71	64	*90%*
	4	**Building societies**	85	81	*95%*
	5	**Locally active savings and loan associations/ cooperative**	2,628	2,617	*100%*
	6	**Private banks**	69	69	*100%*
	7	**Custody banks**	17	15	*88%*
	8	**CCPs**	4	4	*100%*
Corporate-	**9**	**Merchant banks**	54	52	*96%*
	10	**Leasing and factoring banks**	12	11	*92%*
Public sector	**11**	**Public development banks**	31	20	*65%*
Other specialised	**12**	**Mortgage banks including pass- through financing**	46	39	*85%*
	13	**Other specialised banks**	98	92	*94%*
Investment firms according to Article 4(2) of the CRR	**14**	**Dealing on own account / underwriting**	47	47	*100%*
	15	**Security trading houses**	40	25	*63%*
	16	**Other investment firms**	9	9	*100%*
		Total	**3,653**	**3,482**	***95%***

Single Rulebook

One of the EBA's main tasks is the development and maintenance of the EU Single Rulebook in banking

Single Rulebook

Identical technical standards driving further harmonisation and coordination of rules under crisis

EU Commission
Sectoral Directives

EU Commission
'Implementing legislation'

EBA providing
advice and opinions

EBA developing
binding technical standards,
guidelines and recommendations

EBA rulemaking

Binding technical standards (BTS)

- BTS are binding in their entirely and directly applicable in all Member States (the Single Rulebook).
- BTS shall be technical and their content shall be delimited by the legislative acts on which they are based.
- There are two different types of BTS: regulatory technical standards (RTS) and implementing technical standards (ITS). RTS can supplement Level 1 text, whereas the ITS only ensure uniform conditions of application.

Guidelines and Recommendations

- They are addressed to competent authorities or financial institutions which shall make every effort to comply with them.
- Each competent authority must confirm whether it complies/intends to comply with that guideline or recommendation and, if applicable, state its reasons for not complying ('comply or explain rule').

The proportionality principle in the regulation

Proportionality in the case of the EBA's work on this area really speaks to the **simplification of rules** rather than reducing their prudential aims i.e. not to produce different rules for different types of institutions

The Single Rulebook **does not necessarily mean a 'one size fits all' approach** in all instances. The same rule does not apply to all types of institutions and activities, but the same risks should be addressed by the same rules.

The regulatory requirements should be commensurate to the riskiness of the institution concerned **(e.g. in terms of size, complexity, cross-border activity and interconnectedness)** and **to the business models** variety existing in the EU

How is the EBA addressing the call for proportionality?

Since its establishment the EBA has been instrumental in the development of the application of proportionality and it sought ways to apply it in its work.

Some examples …

Proportionality in supervisory reporting

Reporting and disclosure have been identified by institutions as the main drivers for the increase in compliance costs in recent years, which are heavier for smaller/less complex institutions.

- Many **elements of proportionality** in supervisory reporting are **implicit** – driven by the regulatory regime or by the business model of an institution

  For example…

  - Scope of data to be submitted depends on use / non-use of internal models for calculation of own funds requirements
  - No reporting on securitisations or covered bonds issuance, if institution is not involved in securitisations respectively does not issue covered bonds

- In addition, the maximum harmonised reporting **framework considers size and risk-specific criteria** in many places to define the scope of reporting requirements

  For example…

  - Reporting on exposures to sovereigns, on large exposures or more granular geographical breakdowns

Current approaches to proportionality

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Size / significance criteria

Less Significant | Significant OSII GSII

Risk specific criteria

Small banks

Size criteria

Operational risk, large exposures 300MEUR

Size and risk specific criteria

Operational risk, additional liquidity monitoring metrics, asset encumbrance

Medium sized banks

Implicit – regulation based, activities based

Internal models (COREP, Large exposures), business models (securitisation, covered bond issuance)

Risk specific criteria

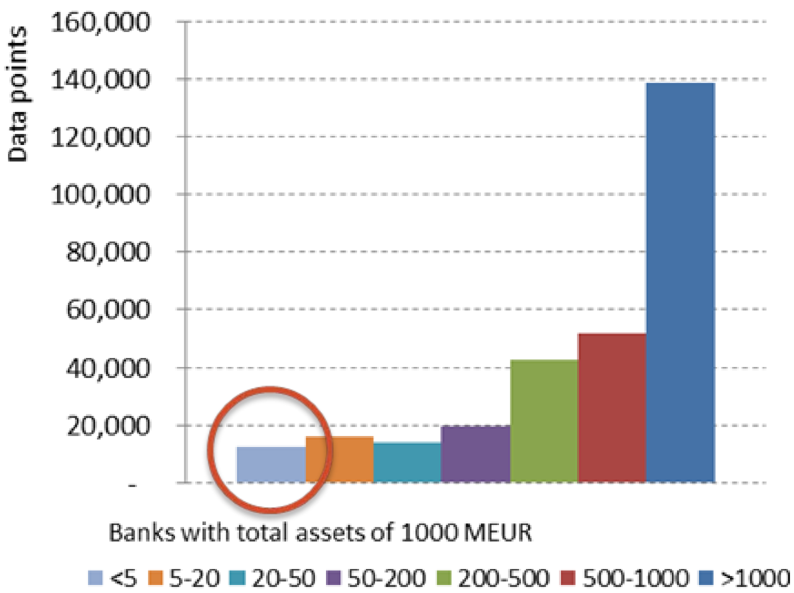
Geographical exposures, sovereign exposures, derivatives, level of asset encumbrance, tangible assets, fees and commissions

Large banks

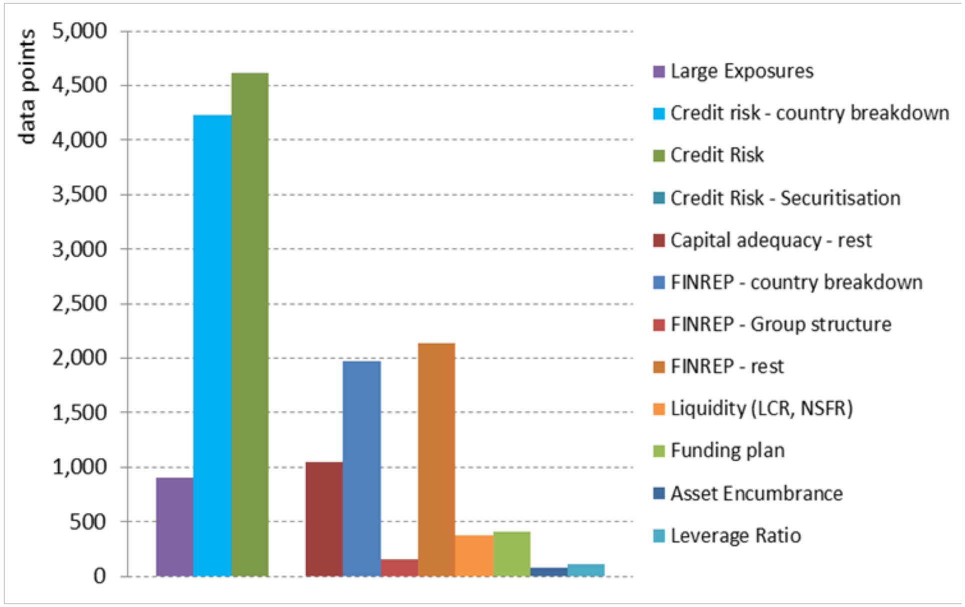
Full reporting expected

Volume of EBA reporting for small banks

Average number of reported data points by size of institutions (EBA reporting framework)



Average number of reported data points by report for institutions with < EUR 5 bn total assets (EBA reporting framework)



Assessment of future reforms calibrated to type of banks

Basel III almost final: impact for EU banks of Dec 2017 package

Change in total Tier 1 minimum required capital, as percentage of the overall CRR/CRD IV minimum required capital, due to the full implementation of Basel III (2027), in %

	Credit risk	Market risk	CVA	Operational risk	Output floor	Total risk-based	Revised LR	TOTAL
All banks	4.5	2.0	3.3	5.7	6.3	21.8	-5.1	16.7
Group 1	4.1	2.3	3.8	6.4	6.5	23.0	-4.3	18.7
Of which: G-SIIs	4.7	3.4	5.4	7.5	5.4	26.4	-1.0	25.4
Group 2	6.7	0.6	0.4	1.4	5.3	14.4	-10.6	3.8

Source: EBA’s BASEL III Monitoring exercise – results based on data as of 31 December 2017

Group 1 banks are banks with Tier 1 capital in excess of EUR 3 billion and which are internationally active. All other banks are labelled as Group 2 banks.

EBA technical advice on the impact and implementation of the finalised Basel III framework

7 May 2018
- EBA received the Call for Advice

July 2018
- EBA to launch data collection exercise (June 2018 ref date)

30 June 2019
- Submit technical advice to the Commission

30 September 2019
- FRTB and CVA analysis if not possible to finalise earlier due to BCBS process

- Supplement to the July 2018 Regular Basel III monitoring (ad-hoc templates). Sufficient time to fill-in templates for banks not familiar with the Basel III monitoring exercises;
- Data collection will be a challenging process, as the Call for Advice asks for: “*The impacts should be clustered with respect to the size, location and business model (e.g. universal, custodian, cooperative, savings, pass-through banks, etc.) of the institutions, where relevant.*”
- **Sample:** Substantially larger than usual Basel III monitoring sample in order to properly capture smaller banks and different business models;

We need more regular data on small banks and business models

Another contribution to the proportionate application of the rulebook is to improve the **EBA's approach to proportionality in its regulatory work.**

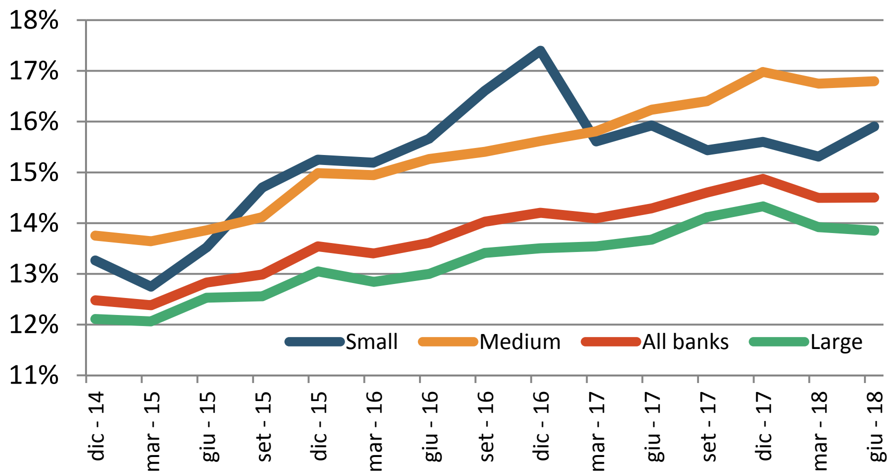
There is the need to have regular data from a more diverse sample of institutions to consider in future impact assessments; the extension of the sample of institutions is underway.

EBA's reporting sample: Average Assets Distribution

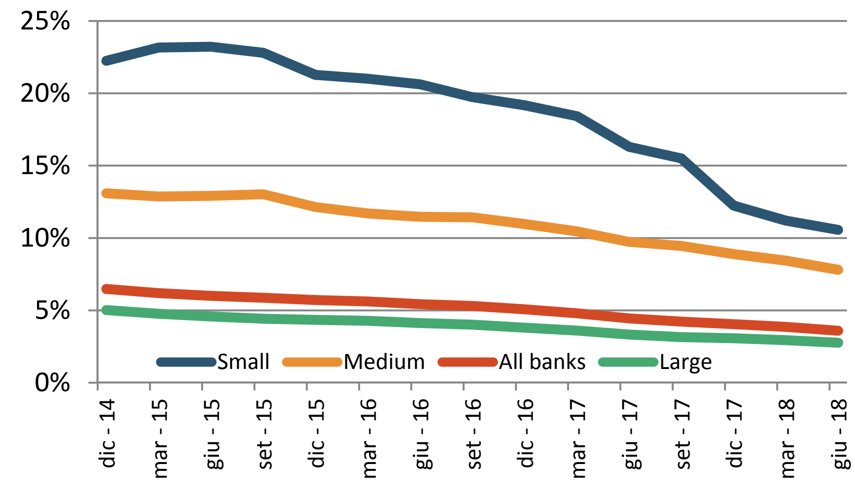
Reference date is Dec 2017	Q1	Average	Q3	N
All banks	***EUR 21.7 bn***	EUR 183.5 bn	***EUR 159.5 bn***	182
Small banks	EUR 5.3 bn	EUR 9.5 bn	EUR 13.1 bn	46
Medium banks	EUR 37.4 bn	EUR 61.5 bn	EUR 75.7 bn	90
Large banks	EUR 223.6 bn	EUR 597.2 bn	EUR 816.9 bn	46

Analyses calibrated to banks’ size

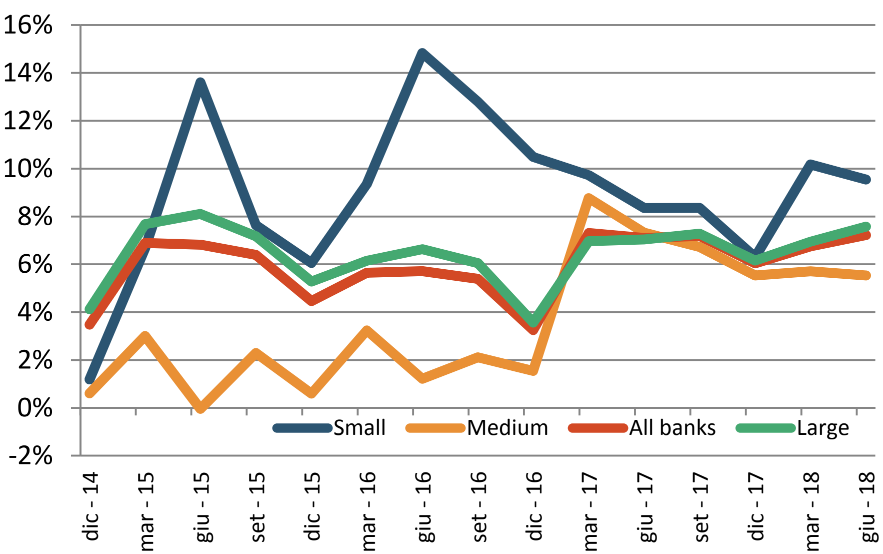
CET1 ratio



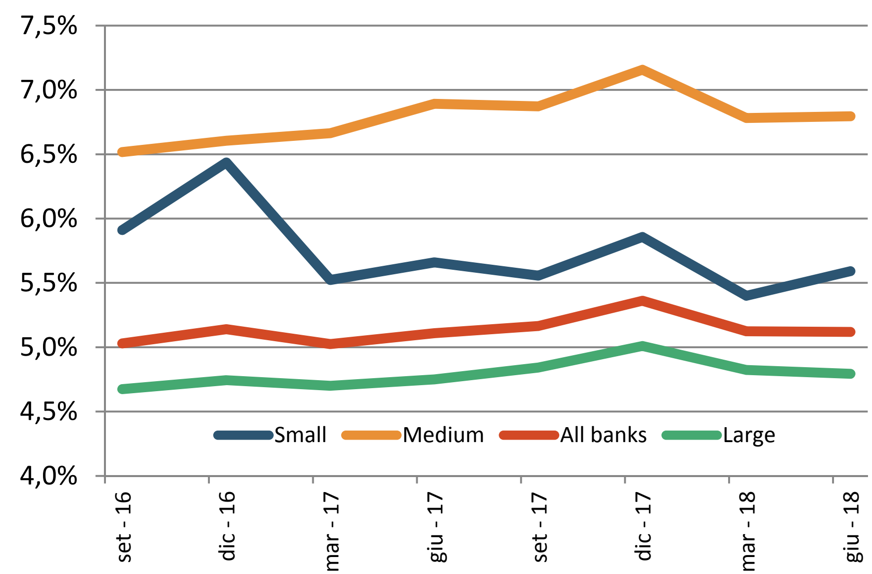
NPL ratio



Return on equity



Leverage ratio



Source for all charts: RDB data(Q2 2018).

Way forward – EUCLID project

- **Eu**ropean **C**entra**l**ised **I**nfrastructure of **D**ata (EUCLID)
- EBA's new platform for collecting master data, including information to be published in Credit Institutions Register (CIR), and supervisory reporting data
- Supervisory data on individual basis for all institutions and on consolidated basis for institutions on the highest level of consolidation in an EEA Member State
- No increase in reporting burden for the expanded sample of banks:
  - Use of sequential approach for all banks – data submitted only once
  - No additional reporting obligations
  - EBA's additional data quality assurance in place only for banks currently reporting to EBA – only automated XBRL validation rules applied for the expanded sample of banks
- Current status: infrastructure for master data submission is being developed, infrastructure for collection of supervisory reporting data will follow

Today

EBA's analyses are based on data from a sample of 200 large banking groups accounting for 85% of EU total assets

In the future

EBA's analyses will be based on data from 500 banking groups + 3.000 individual banks accounting for 100 % of EU total assets

One small step in terms of total assets …

Today

EBA's analyses are based on data from a sample of 200 large banking groups accounting for 85% of EU total assets

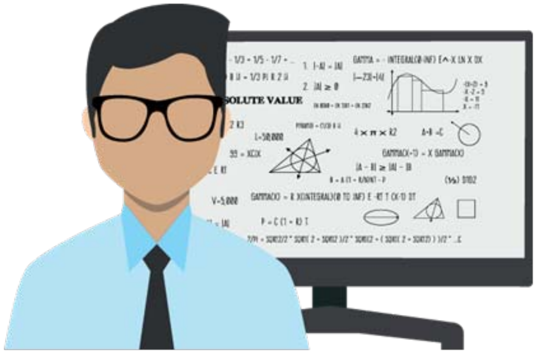
In the future

EBA's analyses are based on data from a sample of 500 banking groups + 4.000 individual banks accounting for 100 % of EU total assets

… with giant benefits

Improved scope of analysis for the EBA with regards to small banks

- Better understanding of risks
- Impact assessment without increasing reporting burden
- Proportionality in banking regulation
- Business models analyses
- Reducing reporting burden: less ad-hoc data collections
- Benchmarking/market discipline



Current EBA sample

Larger, more complex, diversified institutions

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Expanded sample

Includes smaller, less complex institutions with different business models

Questions ?

Thank you for your attention!

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